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TAGS: [ECON](#) [PGOV](#) [CE](#) [ECONOMICS](#)
SUBJECT: PROMISES, PROMISES: ECONOMIC RHETORIC FROM
THE SIR LANKAN CAMPAIGN TRAIL

Refs: 03 COLOMBO 2027

(U) Classified by James F. Entwistle, Deputy Chief of Mission. Reasons 1.5 D and E.

1. (C) Summary: As the march toward the April 2 parliamentary elections continues, much of the campaign rhetoric has focused on the economy. At the same time, the continued political instability caused by the dissolution of parliament and the ensuing campaign is casting a pall over the economy. PM Wickremesinghe's United National Party (UNP) is trying to position itself as the country's economic savior, claiming significant results after only two years in office. President Kumaratunga's United People's Freedom Alliance (UPFA), meanwhile, accuses the UNP of corruption, mismanagement and policies that favor the wealthy and hurt the working class, the rural poor and recent graduates. (Note: The President's Sri Lanka Freedom Party (SLFP) is contesting the elections with the Marxist JVP in the new UPFA). In a just released UPFA election manifesto (largely an SLFP creation) several unabashedly protectionist policies are advocated. Finally, the JVP is trying to reassure a concerned investor community about its role in a potential government. Its positions give the impression, however, that the JVP does not understand the "market" policies it claims it will pursue.

2. (C) While the rhetoric will continue through the election period, it is likely that the old James Carville adage "it's the economy stupid" will play out here, at least in part. Whether the electorate will feel that the PM has delivered, and they are better off today than two years ago, or that they have been shafted and it is time for a return to more socialist-oriented economic policies, will not be known until April 3. End summary.

3. (U) As the April 2 election approaches, campaign rhetoric continues to heat up with the economy a frequent topic of debate. Meanwhile, a recent Finance Ministry report notes that Sri Lanka faces lower revenues and increased expenditures as a result of continued political instability.

Finance Ministry Report: Elections Nothing but Bad News

4. (U) A recent report by the Finance Ministry (mandated by the constitution following the dissolution of parliament) notes the GSL made solid strides in the past two years in deficit reduction through decreased expenditures (revenues did not increase with equal success), lower taxes, lower interest rates and lower inflation. There had also been a new round of privatization and a focus on improving bilateral and multilateral trade ties.

5. (U) In light of the dissolution of parliament however, economic momentum has been lost. According to the report, the budget deficit is likely to increase, as expenditures are projected to rise by approximately US\$ 67 million this year, while revenues will likely fall by US\$ 120 million. Interest rates have remained steady, but the rupee has depreciated against the dollar and inflation seems poised to push back up.

6. (U) The report further outlined other negative effects of the recent political instability, including:

--delays in economic reform programs, including privatization and introduction of a new revenue authority,

--slips in IFI-related funding for reform programs (IMF delayed a USD 90 million loan tranche for example), and

--reduced investment, as would-be-investors wait out the election to see what happens.

UNP Campaign: PM Deserves Credit for Economic Performance

17. (SBU) The economy is a major focus of each party's campaign. The PM is trying to paint a rosy "its morning in Sri Lanka again" picture, taking credit for establishing the now two-year old cease-fire with the LTTE that has allowed renewed growth and positive economic trends to return.

18. (SBU) Nonetheless, the UNP seems well aware that the electorate's mood is "what have you done for me lately?" (Just released polls indicate a significant level of public dissatisfaction with the UNP economic reform efforts.) The PM's campaign promises to renew its efforts, stay the course on privatization and implement the national budget it championed prior to the dissolution of parliament. The budget included significant public sector wage increases, additional agricultural subsidies and increased infrastructure investment (see reftel).

19. (SBU) The PM's campaign has exhibited a more sophisticated understanding of the direction the economy needs to move: less government intervention, a smaller public sector and value-added, rather than subsidized, production processes. There has been some pandering to the electorate, however. For example, despite looming power shortages and an electric utility that is hemorrhaging money, the GSL has elected not to raise electricity prices by one rupee per unit, as had previously been planned. As the election gets nearer, more belt-tightening measures could be put off at least until after April 2.

Alliance Campaign: People "not ready" for free market

10. (SBU) President Kumaratunga has been campaigning hard for the United People's Freedom Alliance (UPFA), the alliance of her SLFP Party with the Marxist JVP party (whose economic policies are outlined below). (Note: Kumaratunga is not actually standing for election to parliament, but sees this election as a chance for her party to retake the parliament and forge a new coalition government. End Note.) A common theme throughout her campaign has been the UNP's "anti-people" policies. In the "Manifesto of the United People's Freedom Alliance (UPFA)," (largely drafted by the SLFP) the President criticizes the current government for reducing subsidies, cutting the public sector and pursuing pro-business initiatives at the expense of education and rural healthcare.

11. (C) A key Presidential advisor, Mano Tittewala, the main architect of the alliance manifesto, told the DCM recently there was "nothing to worry about in it." He said the JVP would not have a meaningful impact on alliance economic policy. On differences between the PM's and the President's economic policy, Tittewala said the only substantive difference was on "strategic public enterprises" such as water, gas, railroads, etc. While the current Government is intent on privatizing portions of these sectors, the alliance Government would keep them, take them out from under the ministries and run them on a "bottom line basis."

12. (C) A close reading of the alliance manifesto gives a different perspective. For example, the manifesto promises to immediately grant 25,000 unemployed university graduates public-sector jobs. (Note: in speeches the number ranges from 25,000 to 60,000 depending on the alliance candidate. End note.) The IMF Rep was recently quoted as saying this kind of initiative would prompt a review of the IMF program; World Bank and ADB contacts have also voiced some concern. (Note: Sri Lanka has a public sector workforce that approaches one million, while the island's population is 19 million; per-capita, the public sector in Sri Lanka is reportedly larger than in India. End note.)

13. (U) With regard to the private sector, during a February meeting of SLFP-JVP Alliance leaders and the business community, Presidential advisor and former Foreign Minister Lakshman Kadirgamar indicated the private sector would have an important role in the economy. He said the alliance would focus its efforts on modernizing agriculture, transportation, local resource-based industries, housing and infrastructure development, human resource development, export diversification, assistance to small and medium enterprises to bridge the technology gap and protection for vulnerable sectors. During the same meeting, with regard to foreign investment, an alliance spokesman Dr.

Sarath Amunugama said the alliance would pursue foreign investment, based on need and "through proper monitoring."

¶14. (SBU) The election manifesto itself calls for several reversals of current economic policies. These include:

--a promise to revise laws like the Termination of Employment Act to provide relief to workers (Note: the current, recently revised, version provides for up to 60 months severance and was part of a reform effort coupled with the introduction of a social safety net, in order to grant employers more flexibility. It is hardly unfriendly to workers. End note.);

--steps to protect domestic industry from foreign industrialists;

--expanded state intervention in the garment industry, including extensive transport, energy, technological and communications facilities. (Note: the Sri Lankan garment industry is one of Sri Lanka's success stories and hardly in need of additional Government intervention. This particular policy would have the effect of bolstering the weakest manufacturers, who have not taken steps to prepare for the expiration of the Multi-Fiber Agreement in 2005. End note.);

--no privatization of railways, bus companies, petroleum, electricity, ports, airport, water or state banks (several privatization initiatives in some of these areas, particular the port and airport, have proven very popular and highly successful).

¶15. (SBU) It also includes nebulous statements that do not provide much comfort to the private sector. For example: "A foundation should be laid for a new economic order...to keep in the hands of the Government the structures and activities essential to fulfill requirements of the people to maintain daily and long term good life standards and in areas where it is not feasible for the public sector to involve in competition with the private sector."

¶16. (SBU) On March 15, ADB's senior economist told Econchief that during a March 12 briefing by the President to the business community, Kumaratunga further distanced the alliance from the current government's economic policies and sound market principles. Kumaratunga said the PM had "imposed" a market economy on the country, "without making the people ready. The US and UK had 400 years to prepare."

Campaign: JVP for a Market Economy...Whatever That Is

¶17. (U) While the Sinhalese Chauvinist/Marxist Janatha Vimukthi Peramuna (JVP) party is officially tied to the SLFP in this election, it has separately voiced many economic policy ideas that are still further left of the Alliance manifesto. Nonetheless, it has tried to reassure a worried investor class that is fearful of a return to the JVP's statist policies and violent practices of the past. In a recent interview, JVP Parliamentary Leader Wimal Weerawansa suggested that JVP economic policy aspires to "build a strong and honest public sector and a private sector that is responsible to the people. a private sector that is socially responsible and respects law and order would have nothing to fear" with respect to the JVP's proposed economic policies.

¶18. (U) Weerawansa's overall commentary, however, suggested a firm belief in a command-style economy. According to Weerawansa, "many of the local industries have fallen and are in urgent need of revival, for which we would focus our immediate attention...the government is certainly in a position to pump capital to help revive local industries."

¶19. (U) With regard to trade barriers, Weerawansa unabashedly promised import restrictions on food and manufactured products that could be locally produced (these notions made it into the alliance manifesto). The JVP intends to "give local entrepreneurs every possible encouragement to develop agriculture and local industries." While claiming not to advocate a ban on wheat flour, for instance, he said the country "needs to create a right market for rice flour based products to take precedence in our daily diet."

¶20. (U) Regarding imports, Weerawansa quoted an unnamed Indian Minister as once saying: "micro chips, yes; potato chips, no." He then went on to explain that by reducing imports of food, the country would protect its

foreign reserves and this was preferable to sending young women abroad. (Note: over one million Sri Lankans currently work abroad as laborers in different fields, remitting over US\$ One billion annually. End note.)

121. (U) When asked about a free trade agreement with the US, Weerawansa deflected the question saying the agreements would be based on "fair and beneficial" terms.

JVP-SLFP Alliance: Tail Wagging the Dog?

122. (SBU) The SLFP and JVP are not cut from the same cloth with regard to economic policy. Which party would exert greater influence over alliance policies in a potential government is hard to predict. Nonetheless, it would appear the SLFP is moderating its traditional positions more than the JVP.

123. (C) While Mano Tittewala dismissed the idea that the JVP would have any effect on alliance economic policies, it has not escaped notice that Tittewala, the former Chairman of the GSL's privatization agency, is now defending state industries and suggesting the government can run them more efficiently. The SLFP, though historically more left-leaning than the UNP, did champion some privatization efforts during its tenure, including the partial privatization of Sri Lanka Telecom, Sri Lankan Airlines and the Colombo Gas Company.

The Business Community and the Elections

124. (U) The Sri Lankan business community has performed a useful role this electoral period, for example, hosting the previously described meeting to hear the SLFP/JVP alliance's economic policies. The Joint Business Forum (JBIZ) sent a detailed questionnaire to both the PM and the President, seeking their positions on several key macro-, micro-economic and political issues. It has also offered commentary about the parties' platforms. For example, at the unveiling of the UPFA manifesto on March 12, JBIZ Chairman Mahendra Amarasinghe noted the alliance plan specified a mixed, rather than fully liberalized, economy, sending "mixed signals to the business community."

125. (U) Various Chambers of Commerce in the past have published policy positions. In November, the Ceylon Chamber of Commerce outlined its views on budget priorities for 2004. In the run up to the dissolution of parliament, JBIZ hosted meetings to discuss the political crisis and debate responses. JBIZ has also called on the new government to limit cabinet ministers to 25 (the number has ranged recently between 70 and 90).

Comment

126. (C) Embassy Colombo has publicly referred to the current Government as the most pro-business government in Sri Lanka's history. That description holds as we go to elections. The UNP appears to have a solid handle on market forces and how to get the economy moving again. The UPFA alliance clearly wants to "talk the talk" -- saying the private sector is critical. It is not clear it can "walk-the-walk" -- shown by its calls for the revival of failing state-owned enterprises and more protectionist policies. (Interestingly, however, a World Bank official recently told us he saw little difference in ability between the PM and Presidential economic teams.) As indicated from the positions outlined above, the electorate would seem to have a fairly stark choice when it comes to the economy. Whether the PM's claims -- that his job was interrupted, but that he had made progress and just needs more time -- or the President's claims -- that the UNP's corruption and pro-business policies have hurt the common man -- resonate, however, will only become clear on election day. End comment.

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